

## Message Text

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC IMMEDIATE 5478

C O N F I D E N T I A L SECTION 1 OF 3 MANILA 6072

E. O. 11652: GDS

TAGS: EAID, RP

SUBJECT: MISSION COMMENTS ON INOUYE TRIP REPORT

REF: STATE 94636

1. WE WOULD DISAGREE WITH SOME POINTS IN REPORT' S CONCLUSIONS AND RECOMMENDATIONS, BUT CONSIDER OVERALL TRIP REPORT A BALANCED DESCRIPTION AND APPRECIATION OF OUR FOREIGN ASSISTANCE PROGRAMS IN THE PHILIPPINES AND ECONOMIC/ POLITICAL SETTING. COMPREHENSIVE MISSION VIEWS PROVIDED BY INCORPORATION OF TEXT OF AMBASSADOR' S STATEMENT ON NEED FOR CONTINUED U. S. ASSISTANCE. RE CLASSIFICATION, RECOMMENDATIONS FOR RETAINING CONFIDENTIAL CLASSIFICATION OF SEVERAL PORTIONS OF REPORT, INCLQSDING AMBASSADOR' S STATEMENT, ARE MADE IN PARA 4 BELOW.

2. FOLLOWING ARE MISSION COMMENTS ON REPORT' S CONCLUSIONS AND RECOMMENDATIONS ( PP 38-40):

A. NUMBERED PARA 1 STATEMENT THAT " PRESENT GOVERNMENT HAS ABANDONED MOST TRADITIONAL DEMOCRATIC INSTITUTIONS AND ITS VERY EXISTENCE IS THROUGH HCE EXERCISE OF MARTIAL LAW" SEEMS TO OVERSTATE CASE. WE WOULD SUGGEST USE OF WORD " SUSPENDED" RATHER THAN " ABANDONED" SINCE MARTIAL LAW AT TIME OF COMMITTEE VISIT HAD BEEN IN EFFECT LESS THAN FOUR MONTHS. FINAL PHRASE ALSO PORTRAYS MARCOS AS ABLE TO CONTINUE AS PRESIDENT

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ONLY THROUGH EXERCISE OF MARTIAL LAW POWERS. IN FACT, MARCOS' PRESENT DOMINANCE IS ALSO BASED ON (1) HIS OWN PREEMINENCE AMONG FILIPINO POLITICIANS; (2) WIDE-SPREAD ACCEPTANCE OF AND/ OR LACK OF OPPOSITION TO HIS MARTIAL LAW MOVES BY ALMOST ALL SECTORS OF PHILIPPINE SOCIETY; AND (3) PROMISE OF FUNDAMENTAL REFORMS WHICH, TO THE EXTENT THAT THEY ARE ACHIEVED, WILL STRENGTHEN HIS POSITION. SHOULD ALSO BE POINTED OUT THAT PRESIDENT MARCOS WAS ELECTED TO SERVE TERM THROUGH DECEMBER 1973. ADOPTION OF NEW CONSTITUTION AND EXISTENCE OF MARTIAL LAW HAVE BLURRED HIS POPULAR MANDATE, BUT IMPORTANT ELEMENTS OF THAT MANDATE CLEARLY REMAIN.

B. NUMBERED PARA 2: FINAL SENTENCE IS MISLEADING IN SUGGESTING THAT LAUREL- LANGLEY AGREEMENT AIMED AT REDUCING OUR ECONOMIC ROLE IN PHILIPPINES IN ABSOLUTE TERMS, WHEREAS IT WAS MEANT TO BEGIN PHASE- OUT OF " SPECIAL " FEATURES OF THE RELATIONSHIP. IN FACT, OUR RELATIVE ROLE HAS BEEN REDUCED IN FOREIGN TRADE AND IN ECONOMY AS A WHOLE, BUT OUR ECONOMIC STAKE IS GREATER THAN BEFORE.

C. NUMBERED PARA 4: THIS PARAGRAPH OVERLOOKS FACT THAT THERE HAVE BEEN NO INDICATIONS THAT THE PHILIPPINE MILITARY HAS BEEN OR COULD BECOME A PARTICULARLY REPRESSIVE GROUP IN THE PHILIPPINE POLITICAL SYSTEM. ALSO NOT TAKEN INTO ACCOUNT IS NEED BY AFP FOR US MILITARY ASSISTANCE TO ACHIEVE ADEQUATE CAPABILITY TO MAINTAIN INTERNAL STABILITY. PRESENT PROBLEMS IN THIS RESPECT INCLUDE CONTINUING THOUGH DECREASING COMMUNIST SUBVERSIVE ACTIVITY AND THE MUSLIM REBELLION IN SOUTHERN PHILIPPINES. FAILURE TO CONTROL THESE WOULD THREATEN INTERNAL STABILITY AND COULD SERIOUSLY AFFECT IMPORTANT U. S. INTERESTS IN THE PHILIPPINES.

D. NUMBERED PARA 7: SHOULD BE NOTED THAT PHILIPPINES' REQUESTS FOR EXTERNAL ASSISTANCE FOR THEIR LAND REFORM EFFORTS HAVE BEEN FOR TECHNICAL ASSISTANCE OF LIMITED SCOPE ( PRIMARILY RAPID LAND TITLING ) AND SMALL IN DOLLAR TERMS.

E. NUMBERED PARA 8: IN GENERAL, GAO REPORT FROM WHICH COMMENTS ARE QUOTED WAS BASED ON INFORMATION GATHERED IN 1971 AND MUCH OF IT IS OUTDATED. FOLLOWING  
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ARE SPECIFIC COMMENTS:

(1) GOP SUPPORT FOR AID PROGRAMS: A SECTION OF THE AMBASSADOR' S STATEMENT ( QUOTED ON PAGE 35 OF TRIP REPORT ) DESCRIBES CURRENT GOP SUPPORT. PROBLEM OF INADEQUATE LOCAL CURRENCY SUPPORT DID EXIST IN LATE 1960' S AND IN

INITIAL PERIOD FOLLOWING STABILIZATION PROGRAM OF 1970. USAID RECOGNIZED IT, CHANGED ITS STYLE OF OPERATION TO ADJUST AND THE PROBLEM HAS BEEN SOLVED. AS A POLICY, USAID MISSION EITHER DOES NOT GET INVOLVED OR TERMINATES ITS INVOLVEMENT WHERE GOVERNMENT SUPPORT IS NOT ADEQUATE. THIS ISSUE FULLY ADDRESSED MANILA 4155 AND DISCUSSED IN EARLIER MISSION COMMENTS ON DRAFT GAO REPORT. APPARENTLY GAO HAS NOT RECOGNIZED THAT THEY DISCOVERED PROBLEM AFTER CORRECTIVE ACTION ALREADY TAKEN AND IT UNFORTUNATE THAT REPETITION OF COMMENT IN COMMITTEE REPORT WILL PERPETUATE IMPRESSION THAT PROBLEM STILL EXISTS.

(2) RE EXIM BANK LOANS, STATEMENT THAT " ECONOMIC BENEFITS WERE RETARDED BECAUSE OF INSUFFICIENT PHILIPPINE GOVERNMENT SUPPORT" IS UNCLEAR AND IN ANY CASE IS NO LONGER APPLICABLE. DELAYS IN UTILIZATION OF LOAN FUNDS HAVE IN PAST BEEN DUE TO COMPLEX FACTORS. THE PROBLEM WAS ACUTE IMMEDIATELY AFTER 1970 DEVALUATION AND BEFORE GOVERNMENT FINANCIAL INSTITUTIONS WERE RE- ESTABLISHED ON A SOUND BASIS.

(3) COMMENT REGARDING PEACE CORPS REFLECTS CONDITIONS IN 1971, AND EARLIER, AND FAILS TO REFLECT SUCCESSFUL PC ENTRY AFTER 1971 INTO NEW FIELDS OF ACTIVITY MORE RELEVANT TO THE NEEDS OF THE PHILIPPINES AND MORE IN ACCORD WITH GOP PRIORITIES.

(4) GAO OBSERVATIONS ON MILITARY ASSISTANCE PROGRAM HAVE BEEN THE SUBJECT OF EXTENSIVE COMMENTS BY CINCPAC AND DEPARTMENTS OF STATE AND DEFENSE. SUGGEST ADDITIONAL WORDING TO INDICATE THAT GOP PERFORMANCE HAS IMPROVED AND THAT MUTUAL INTERESTS ARE SERVED BY CONTINUING MAP.

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TO SECSTATE WASHDC 5479

C O N F I D E N T I A L SECTION 2 OF 3 MANILA 6072

(5) RE GAO OBSERVATIONS ON U. S. SUGAR POLICY, THE CONCEPT OF " SUGAR PREMIUMS" AND OTHER ASPECTS OF GAO REPORT ON SUGAR TRADE ARE DISCUSSED IN DETAIL IN DEPARTMENT' S LETTER OF APRIL 28, 1972, TO GAO ( STOVALL). DEPARTMENT STATED THAT THERE IS NOW A SHORTAGE RATHER THAN EXCESS OF WORLD SUGAR SUPPLIES, AND INDICATIONS ARE THAT THE SHORTAGE WILL INTENSIFY IN COMING YEARS. THIS HAS BEEN AMPLY BORNE OUT BY PRICE AND SUPPLY MOVEMENTS IN INTERNATIONAL SUGAR MARKET DURING PAST YEAR, AND GROWTH IN PHILIPPINE OUTPUT HAS PERMITTED MORE EFFECTIVE SUPPLY OF PHILIPPINE ENTILEMENTS UNDER U. S. QUOTA. NEVERTHELESS, REPORT REPEATS WITHOUT QUALIFICATION GAO STATEMENT THAT " SUGAR PROFITS WERE USED IN A QUESTIONABLE EXPANSION OF THE INDUSTRY".

F. RE NUMBERED PARA 9: RECENT REFORMS HAVE INCREASED GOVT' S SHARE OF REVENUE WITH AN APPROXIMATE 20 PERCENT INCREASE TO 13 PERCENT OF GNP PREDICTED FOR 1973.

G. RE NUMBERED PARA 10: ISSUE OF TIED US DOLLAR EMERGENCY GRANT WAS ADDRESSED AT LENGTH IN MANILA 4064. IT MAY WELL BE THAT AGENCY AND ADMINISTRATION POLICIES ON ADDITIVITY SHOULD BE MODIFIED IN FUTURE. UNDER CIRCUMSTANCES AT TIME GRANT WAS BEING COMMITTED, TIMELY RESPONSE TO REHABILITATION NEEDS COULD NOT BE MADE WHILE AT SAME TIME TYING TO US PURCHASES, GIVEN EXISTING POLICIES ON THIS SUBJECT.

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3. FOLLOWING ARE COMMENTS ON MAIN BODY OF REPORT ( SECTION ON PHILIPPINES, PP11-37):

-- P 16: WE ENDORSE COMMITTEE' S OBSERVATION ON VALUE OF PROJECTS " THAT DIRECTLY AND VISIBLY IMPROVE THE LIVING CONDITIONS OF TMC MASSES" AND BELIEVE THIS SHOULD BE KEY PROGRAMMING CRITERION OF AID ASSISTANCE. THIS IS LIKELY TO GIVE MOST DESIRABLE DEVELOPMENT BENEFITS AND ALSO TO GIVE GREATEST RETURN TO US IN TERMS VISIBILITY.

-- P 19-23: MISSION MOST GRATIFIED BY BALANCED AND FAVORABLE ACCOUNT OF REIMBURSEMENT CONCEPT. FURTHER DEVELOPMENT WILL HOPEFULLY EXTEND RANGE OF ACTIVITIES TO WHICH CONCEPT OF TYING DISBURSEMENT USAID RESOURCES TO SPECIFICALLY BOSERVABLE PROGRESS CAN BE APPLIED. MISSION CONTINUING ITS EXPLORATION THIS AREA.

-- P 19, PARA 7: MINOR ERROR IN THAT THE \$2.4 MILLION EMERGENCY ASSISTANCE IS INCLUDED IN \$50 MILLION TOTAL.

-- P 23, PARA 4: WE BELIEVE COMMITTEE' S COMMENTS ON NECESSITY TO ESTABLISH IMAGE OF " WISE" AND " EFFECTIVE" USE OF RESOURCES FOR US TAXPAYERS SHOULD BE SERIOUSLY ADDRESSED. OUR IMAGE HERE IS GOOD IN REALITY, EVEN THOUGH THE OBVIOUSLY CAREFUL PROCEDURES CAN BE OF GREAT BENEFIT.

-- P 23, LAST THREE PARAS: STATEMENT IN LAST PARAGRAPH RE ASSIGNMENT OF C-123 AIRCRAFT IS NO LONGER ACCURATE. SIXTEEN OF THESE PLANES HAVE NOW BEEN ALLOCATED TO THE PHILIPPINES AND ACCEPTED BY GOP.

-- P 25, LAST SENTENCE OF FIRST FULL PARA: THE FIGURE OF \$800 MILLION MAY BE MORE " PURE" THAN " EDUCATED" GUESS. IT COULD BE MISLEADING AND THEREFORE THE SENTENCE SHOULD BE DROPPED.

-- P 27-28: US ASSISTANCE IN LAND REFORM IS LIMITED AND RESTRICTED TO ADVICE ON CERTAIN TECHNICAL PROBLEMS. REQUESTS FOR LARGER ASSISTANCE, PARTICULARLY ANYTHING  
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ASSOCIATED WITH THE COSTS OF TITLE TRANSFER, HAVE NOT BEEN MADE. IF SUCH REQUESTS ARE MADE THEY WILL BE EVALUATED WITH CARE AND RECOMMENDATIONS MADE AT THAT TIME.

-- P 29: STATEMEN IN FINAL PARAGRAPH THAT " UNITED STATES FIRMS PLAY A DOMINANT ROLE IN THE PHILIPPINES ECONOMY" IS NOT ACCURATE. SUGGEST SENTENCE BE REWORDED AS FOLLOWS: " SINCE UNITED STATES FIRMS PLAY AN EXTREMELY IMPORTANT ROLE IN PHILIPPINE ECONOMY AND DOMINATE SEVERAL KEY FIELDS SUCH AS OIL REFINING, THE DELEGATIION INQUIRED...."

4. RECOMMENDATIONS RE CLASSIFICATION: WE FEEL THE FOLLOWING PORTIONS OF THE REPORT SHOULD REMAIN CLASSIFIED CONFIDENTIAL:

-- P 13, SECOND PARAGRAPH, FINAL SETENCE: " WHETHER THAT RATIFICATION WILL BE SEEN AS A KEY DECISION ..... REMAINS TO BE SEEN".

-- P 23, FINAL THREE PARAS DISCUSSING C-130 AND C-123 AIRCRAFT.

-- P 24, THIRD AND FOURTH PARAS RE PRIORITIES FOR REDISTRIBUTION OF EXISTING PROPERTIES FROM VIETNAM ( UNLESS THIS IS OTHERWISE PUBLIC KNOWLEDGE).

-- P 25, FIRST FULL PARAGRAPH, LAST TWO SENTENCES:  
" THESE OFFICIALS MAINTAIN ... MOVE OR REPLACE THE  
FACILITIES".

-- P 26, SECOND PARAGRAPH, FOURTH SENTENCE: " IT  
DEMONSTRATED ITS ABILITY ... 1972 EASTER OFFENSIVE".

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TO SECSTATE WASHDC IMMEDIATE 5480

C O N F I D E N T I A L SECTION 3 OF 3 MANILA 6072

-- P 32, FIRST FULL PARA, SECOND AND THIRD  
SENTENCES: " -- AND WORTH BILLIONS OF DOLLARS ...  
MOVING TOWARD THE KIND OF PEACE WE WANT IN VIETNAM".

-- P 32, SECOND PARA, THIRD AND FOURTH SENTENCES" THE NUMBER OF  
PLACES  
...  
IS NOT BIG TO ALL".

P 33, FOURTH PARA PORTION OF SECOND SENTENCE: "( PRIMARILY  
UNITED STATES)".

-- P 34, FINAL PORTION OF FIRST PARA " ALL FREE  
OF RENT ... SERVING BASIC UNITED STATES INTERESTS".

P 36, FINAL SENBNCE OF FIRST PARA, " THE  
CONSULTATIVE GROUP ... BEST SERVED BILATERALLY".

-- P 36, PARA HEADED " MILITARY ASSISTANCE  
PROGRAM" , PHRASE " ( WE DO NOT KNOW WHETHER OR FOR HOW  
LONG THEY MAY REMAIN SO UNDER MARTIAL LAW)".

-- P 36, FINAL PARA, PORTION OF FOURTH  
SENTENCE: " CAN CONTINUE TO SUPPORT THE RELATIVE  
INDEPENDENCE OF THE PHILIPPINE ARMED FORCES FROM THE

POLITICAL PROCESS AND".

-- P 37, ENTIRE FIRST AND SECOND PARAGRAPHS.

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-- P 37, THIRD PARA, PENULTIMATE SENTENCE: " IT  
IS MUCH MORE THAN IMPLIED RENT ON ALL THE SYSTEMS WE  
HAVE HERE".

-- P 38, NUMBERED PARA 1, FINAL SETENCE " IT  
WAS THEREFORE ... THROUGH THE EXISTENCE OF MARTIAL  
LAW".

-- P 38, NUMBERED PARA 4: " AND BELIEVES THE  
UNITED STATES SHOULD PROCEED WITH THE UTMOST CAUTION  
IN BUILDING UP THE SECURITY CAPABILITIES OF THE  
PHILIPPINE FORCES".

5. FOLLOWING ARE COMMENTS ON " GENERAL OBSERVATIONS AND  
RECOMMENDATINS". ( PAGES 7-10):

IN GENERAL, MISSION AGREES WITH OBSERVATIONS AND  
RECOMMENDATIONS IN THIS SECTION, IN  
PARTICULAR NECESSITY OF AVOIDING CORRUPTION OR  
DIVERSION OF AID FUNDS FROM THEIR INTENDED PURPOSE  
( ITEM 4). MISSION ALSO STRONGLY SUPPORTS AS GENERAL  
GUIDELINES COMMITTEE STATEMENTS ON NECESSITY FOR STRONG  
LOCAL SUPPORT ( ITEM 1); ON GOALS OF U. S. FOREIGN  
ASSISTANCE INCLUDING NEED TO SUPPORT U. S. TRADE  
OBJECTIVES AND EXPORT EXPANSION ( ITEM 2); ON USE OF  
REIMBURSEMENTS ( ITEM 5); AND ON PRIORITY ELIBIGILITY FOR  
EXCESS PROPERTY ( ITEM 9).

REGARDING ITEM 8, SUGGESTING MAXIMUM FOUR YEAR TOURS,  
MISSION BELIEVES THIS DEPENDS TO LARGE DEGREE ON  
INDIVIDUAL IN QUESTION. VALUE OF PERSONNEL IS OFTEN  
GREATLY INCREASED WITH KNOWLEDGE OF PROGRAM AND  
CULTURE AND WITH ESTABLISHMENT PERSONAL CONTACTS.  
SOME PERSONS SHOULD PERHAPS LEAVE AFTER TWO YEARS BUT  
MANY PERSONNEL OPERATING EFFECTIVELY ( PARTICULARLY IN  
KEY MANAGEMENT SLOTS) PROBABLY SHOULD BE ENCOURAGED TO  
STAY BEYOND FOUR YEARS IN ONE COUNTRY.  
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